

Agenda Item: 8

TO: Policy and Resources Committee

FROM: Deputy Chief Executive Officer - Matthew Warren

PRESENTING OFFICER(S): Matthew Warren
Telephone 01480 444619
matthew.warren@cambsfire.gov.uk

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PUBLIC SECTOR PENSION REVALUATION OF UNFUNDED SCHEMES

1. Purpose

- 1.1 The purpose of this report is to provide the Policy and Resources Committee with an update on the outcomes of the Government Actuarial Department (GAD) revaluation of public sector pensions where there is no pension fund.

2. Recommendation

- 2.1 The Policy and Resources Committee is asked to note the current position.

3. Risk Assessment

- 3.1 **Financial** - the potential implications for employers through increased contributions could be material and result in a significant pressure for the Authority in 2020/21.

4. Background

- 4.1 The firefighter pension scheme is a defined benefit scheme where the level of pension is defined in relation to the member's salary. As with a number of other public sector pension schemes, the firefighter pension scheme is not backed by a pension fund, so is deemed an unfunded scheme.
- 4.2 In 2011, the Government consulted on how discount rates would be used to set public service pension contributions. Unfunded schemes do not have a fund of assets from which pensions are paid and whilst the Government, through taxpayers, ultimately backs these schemes it does not change the importance of understanding the costs of the schemes and associated potential costs.
- 4.3 The Superannuation Contributions Adjusted for Past Experience (SCAPE) methodology looks to value the cost of a scheme in the absence of a real pension fund.
- 4.4 The revised methodology introduced the cap and share policy and is designed to ensure cost pressures are shared between employers and employees up to an agreed employer contribution cap, beyond which all further increases will be the responsibility of employees. The maximum limit is designed to protect public finances and the taxpayer.

5. GAD Valuation 2016

- 5.1 The results of the 2016 valuation, along with a draft response from Government, were published in mid-September 2018. In summary the cost cap has been breached and as such will result in increased employer contributions. The primary factor for the breach is the reduction of the SCAPE rate which is largely calculated using economic forecasts. This reduction will cause a cost gap between actual costs and expected funding. This gap will need to be funded by employers; Treasury has indicated that it will fund increases for 2019/20 but not beyond.
- 5.2 In addition, the cost floor cap has also been breached at the 2016 valuation. This relates to the new pension scheme and the potential cost of this moving forward. It is expected that salaries will increase above that previously forecast and life expectancy will fall. To balance this element of the scheme, pension benefits will be increased through increased accrual rates.
- 5.3 The GAD will continue to finalise the results of the valuation following the Governments directions and provide the final outcome by the end of the year. At this time, a further report on the financial implications will be presented to the Authority.
- 5.4 The relevant GAD Technical Bulletin has been attached at Appendix 1.

BIBLIOGRAPHY

Source Document	Location	Contact Officer
GAD Technical Bulletin: Public Sector Pension Schemes	Hinchingbrooke Cottage Brampton Road Huntingdon PE29 2NA	Deb Thompson Scrutiny and Assurance Manager deb.thompson@cambsfire.gov.uk